



Exhibit No. 12.1  
Docket No. 3720-WR-107  
Witness: Kathleen Butzlaff

PSC REF#:129340

# Public Service Commission of Wisconsin

Eric Callisto, Chairperson  
Mark Meyer, Commissioner  
Lauren Azar, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

April 1, 2010 – SENT ELECTRONICALLY

Ms. Carrie M. Lewis, Superintendent  
Milwaukee Water Works  
841 North Broadway, Room 409  
Milwaukee, WI 53202  
E-mail: [carrie.lewis@milwaukee.gov](mailto:carrie.lewis@milwaukee.gov)

Re: Staff Revenue Requirement Exhibit for the Milwaukee Water Works  
Application for a Water Rate Increase

3720-WR-107

Dear Ms. Lewis:

Enclosed is a revised copy of the Public Service Commission staff's (staff) proposed 2010 test year Revenue Requirement Exhibit (exhibit) to be presented at the hearing for the Milwaukee Water Works (utility). This exhibit is labeled 12.1 to match the numbering assignment which will be used at the hearing. This exhibit also includes a small change in the allocations to retail and wholesale customers which results in a slightly different weighted average rate of return.

The utility requested rates of return on net investment rate base (ROR) of 5.00 percent for retail customers and 6.50 percent for wholesale customers. The difference between a 5.00 percent and a 6.50 percent ROR for wholesale customers provides for an additional \$616,177 in revenue. This additional revenue results in a total recommended increase of \$18,801,804 and a weighted average ROR of 5.21 percent as shown on Schedule 2 of my exhibit.

Enclosed as Schedule 5 is the list of depreciation rates that is the basis of staff's estimated depreciation expense for the test year. When the order is issued in docket 3720-WR-107 these rates will be certified for use by your utility effective January 1, 2010.

If you have any questions regarding the above, please contact me at (608) 267-9817 or by e-mail at [kathleen.butzlaff@psc.state.wi.us](mailto:kathleen.butzlaff@psc.state.wi.us). If you have any questions regarding the status of your rate case, please contact David Prochaska at (608) 266-5739 or by e-mail at [david.prochaska@psc.state.wi.us](mailto:david.prochaska@psc.state.wi.us).

Sincerely,

/s/ Kathleen Butzlaff

Kathleen Butzlaff  
Audit Manager  
Division of Water, Compliance and Consumer Affairs

KAB:pc:w:\water\butzlk\rate case exhibits\Milwaukee Letter 2010 2  
Enclosure

cc: Service List

# **Milwaukee Water Works**

---

**Estimated 2010 Operating Income Statement**

**Net Investment Rate Base**

**and 2010 Estimated Revenue Requirement**

**Public Service Commission of Wisconsin**

**Division of Water, Compliance, and Consumer Affairs**

Milwaukee Water Works  
3720-WR-107

Estimated Operating Income Statement  
and Net Investment Rate Base  
2010 Test Year

	Utility Estimate	Adjustments		Staff Estimate
		No.	Amount	
Total Operating Revenues:	\$70,449,726		\$0	\$70,449,726
Operating Expenses:				
Source of Supply	\$0		\$0	\$0
Pumping	6,674,560	1	(414,185)	6,260,375
Water Treatment	13,614,784		0	13,614,784
Transmission and Distribution	17,457,708	2	407,000	17,864,708
Customer Accounts	832,416		0	832,416
Sales	0		0	0
Administrative and General	12,302,261	3	440,819	12,743,080
Total Operation & Maintenance Expenses	\$50,881,729		\$433,634	\$51,315,363
Depreciation	11,230,415		0	11,230,415
Amortization	0		0	0
Taxes	11,283,998		0	11,283,998
Total Operating Expenses	\$73,396,142		\$433,634	\$73,829,776
Net Operating Income (Loss)	<u>(\$2,946,416)</u>		<u>(\$433,634)</u>	<u>(\$3,380,050)</u>
Net Investment Rate Base:				
Utility Plant in Service	\$481,942,418	4a	(\$213,000)	\$481,729,418
Less:				
Accumulated Provision for Depreciation	180,338,298	4b	(3,298,316)	177,039,982
Net Plant in Service	\$301,604,120		\$3,085,316	\$304,689,436
Add: Materials and Supplies	2,375,000		0	2,375,000
Less: Regulatory Liability - pre-2003				
Depreciation on Contributed Plant	10,952,897		0	10,952,897
Net Investment Rate Base	<u>\$293,026,223</u>		<u>\$3,085,316</u>	<u>\$296,111,539</u>
Rate of Return	-1.01%			-1.14%

Milwaukee Water Works  
3720-WR-107

Estimated Operating Income Statement  
Average Net Investment Rate Base and  
Revenue Requirement to Yield the Proposed Rate of Return  
2010 Test Year

	Staff Estimate	Increase Required	Proposed Rate Level
Total Operating Revenues:	\$70,449,726	\$18,801,804	\$89,251,530
Operating Expenses:			
Source of Supply	\$0		\$0
Pumping	6,260,375		6,260,375
Water Treatment	13,614,784		13,614,784
Transmission and Distribution	17,864,708		17,864,708
Customer Accounts	832,416		832,416
Sales	0		0
Administrative and General	12,743,080		12,743,080
Total Operation & Maintenance Expenses	\$51,315,363		\$51,315,363
Depreciation	11,230,415		11,230,415
Amortization	0		0
Taxes	11,283,998		11,283,998
Total Operating Expenses	\$73,829,776		\$73,829,776
Net Operating Income (Loss)	(\$3,380,050)		\$15,421,754
Net Investment Rate Base:			
Utility Plant in Service	\$481,729,418		\$481,729,418
Less:			
Accumulated Provision for Depreciation	177,039,982		177,039,982
Net Plant in Service	\$304,689,436		\$304,689,436
Add: Materials and Supplies	2,375,000		2,375,000
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant	10,952,897		10,952,897
Net Investment Rate Base	\$296,111,539		\$296,111,539
Rate of Return	-1.14%		5.21%

Milwaukee Water Works  
3720-WR-107

Estimated Operating Revenues  
2010 Test Year

	Utility Estimate	Adjustments		Staff Estimate
		No.	Amount	
Unmetered Sales to General Customers	\$175,000			\$175,000
Metered Sales to General Customers:				
Residential	\$27,238,697		\$0	\$27,238,697
Commercial	15,439,556		0	15,439,556
Industrial	5,203,192		0	5,203,192
Total Metered Sales	\$47,881,445		\$0	\$47,881,445
Private Fire Protection	681,509		0	681,509
Public Fire Protection	5,877,239		0	5,877,239
Sales to Public Authorities	3,585,644		0	3,585,644
Sales for Resale	8,748,889		0	8,748,889
Interdepartmental	0		0	0
Total Water Sales	\$66,949,726		\$0	\$66,949,726
Forfeited Discounts	2,600,000		0	2,600,000
Misc. Service Revenues	0		0	0
Rents of Water Property	275,000		0	275,000
Interdepartmental Rents	0		0	0
Other Water Revenues	625,000		0	625,000
Total Operating Revenues	\$70,449,726		\$0	\$70,449,726

Milwaukee Water Works  
3720-WR-107

Explanation of Staff Adjustments in Schedule 1

Particulars	Amount
<u>Adjustment No. 1</u>	
To decrease the utility's estimated Power Purchased for Pumping to the 2010 PSC estimate based on the 2010 estimated sales of water, a four year average ratio of sales to pumpage, a two year average ratio of gallons pumped per kwh, and estimated cost per kWh at the 2008 level increased 3 percent for both 2009 and 2010.	(\$414,185)
<u>Adjustment No. 2</u>	
To increase the utility's estimated Maintenance of Distribution Reservoirs and Standpipes Expense of \$21,896 to the 2010 PSC estimate of \$428,896 based upon:	\$407,000
- the utility's estimated routine expenses of \$21,896	
- an estimated \$407,000, which is the cost to paint six reservoirs normalized over 15 years.	
<u>Adjustment No. 3</u>	
To increase the utility's estimated Outside Services Employed of \$1,117,181 to the 2010 PSC estimate of \$1,558,000 based upon:	\$440,819
- estimated expenses of \$510,000 for charges which the sewer department had overlooked and did not start billing to the water utility until 2008	
- estimated other routine expenses of \$1,048,000, approximately the 2006 - 2009 average.	
<u>Adjustment No. 4</u>	
To adjust the utility's estimated Net Investment Rate Base to the 2010 PSC estimate as follows:	\$3,085,316
a. To decrease Plant in Service to the 2010 PSC estimate based upon utility revisions to plant additions and retirements in 2009 and 2010 in addition to staff reclassification for the meter replacement program in 2010 from routine to major.	(\$213,000)
b. To increase the utility's estimated Net Investment Rate Base to the 2010 PSC estimate by decreasing Accumulated Provision for Depreciation based upon:	3,298,316
- estimated 2009 and 2010 depreciation accruals using authorized rates	
- estimated retirements in 2009 and 2010	
- estimated 2009 and 2010 salvage and cost of removal.	
Total Increase	<u>\$3,085,316</u>

Milwaukee Water Works  
Schedule of Depreciation Rates  
Effective January 1, 2010

Schedule 5

<u>Account Number</u>	<u>Account Title</u>	<u>Deprec. Rate</u>
	SOURCE OF SUPPLY PLANT	
313	Lake, River and Other Intakes	1.7%
316	Supply Mains	1.8%
	PUMPING PLANT	
321	Structures and Improvements	3.2%
325	Electric Pumping Equipment	4.4%
	WATER TREATMENT PLANT	
331	Structures and Improvements	3.2%
332	Sand and Other Media Filtration Equipment	3.3%
	TRANSMISSION AND DISTRIBUTION PLANT	
342	Distribution Reservoirs and Standpipes	1.9%
343	Transmission and Distribution Mains	1.3%
346	Meters	5.5%
348	Hydrants	2.2%
	GENERAL PLANT	
390	Structures and Improvements	2.9%
391	Office Furniture and Equipment	5.8%
391.1	Computer Equipment	26.7%
392	Transportation Equipment	13.3%
393	Stores Equipment	5.8%
394	Tools, Shop and Garage Equipment	5.8%
395	Laboratory Equipment	5.8%
396	Power Operated Equipment	7.5%
397	Communication Equipment	15.0%
397.1	SCADA Equipment	9.2%
398	Miscellaneous Equipment	5.8%